

01 March 2021

Kelington Group

Scaling New Heights

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KGB posted back-to-back record high quarterly earnings with 4QFY20 CNP of RM9.8m (+16% YoY), bringing FY20 CNP to RM21.8m (-17% YoY) which came in above expectations at 162%/143% of our/street forecast. Its revenue in Malaysia and Taiwan doubled while China operation's revenue grew 85%. KGB clinched a record-high RM490m new orders in FY20 despite the pandemic and is on track for another year of tremendous earnings growth, backed by higher demand for UHP jobs due to massive front-end expansion amid the global chip shortage. Reiterate **OUTPERFORM** and Target Price of RM3.10.

Above expectation. Kelington Group Bhd (KGB) registered yet another record high earnings with 4QFY20 CNP of RM9.8m (+16% YoY), after adjusting for impairment of RM2.3m. Cumulatively, FY20 CNP of RM21.8m (-17% YoY) came above expectations at 162% and 143% of our and consensus respective full-year forecasts.

Results' highlight. YoY, the back-to-back record high earnings in 4QFY20 CNP of RM9.8m (+21% QoQ; +16% YoY) was led by an all-time high revenue of RM129.5m (+32% QoQ; +16% YoY) as operations in Malaysia and Taiwan saw doubling of job orders while China operations' revenue grew 85%. As a result, FY20 revenue reached a new high of RM390m (+2.6% YoY) with CNP at RM21.8m (-17% YoY). **QoQ**, 4QFY20 CNP jumped 21% to RM9.8m (post-adjustment for impairment) while revenue leaped 32% as the general contracting and process engineering segments grew 93% and 97%, respectively.

Job awards reach new high. Despite a pandemic year, KGB managed to clinch RM490m new jobs in FY20, its highest ever in a year, chalking a solid 27% increase from RM386m in FY19. Such unparalleled track record coupled with its superior skill set will equip KGB with great advantage moving into FY21 which we strongly believe will be another year of tremendous earnings growth. This is possible thanks to the group's unique exposure to the front-end wafer fabrication players which are scrambling to expand capacity amid the current global chip shortage. SMIC is requesting KGB to speed things up at its Shanghai plant and hinted of more UHP-related job awards.

Tendering activities are fully lined up with WD Penang (announced RM2.3b investment), Micron SG (resuming memory spending), along with Lam Research, Bosch, and B Braun looking to expand capacity in Penang. Note that KGB has worked with WD and Micron SG in all their past expansions, positioning the group well for upcoming tenders. All in, the group has a tender-book of approximately RM900m spread equally across Malaysia, China, and Singapore.

Maintain FY21E CNP of RM31.1m and introduce FY22 CNP of RM35.5m, representing 43% and 14% growth, respectively.

Maintain OUTPERFORM and Target Price of RM3.10 based on unchanged FY21E PER of 32x (+1SD to 3-year mean).

Risks to our call include: (i) slower revenue recognition due to Covid-19, (ii) downturn in semiconductor sales, and (iii) delay in liquid CO2 ramp-up.

OUTPERFORM ↔

Price : **RM2.36**
Target Price : **RM3.10** ↔

Share Price Performance



KLCI 1,577.75
YTD KLCI chg -3.0%
YTD stock price chg 39.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KGRB MK Equity
Market Cap (RM m)	758.5
Shares Outstanding	321.4
52-week range (H)	2.70
52-week range (L)	0.59
3-mth avg daily vol:	2,369,012
Free Float	53%
Beta	1.2

Major Shareholders

Palace Star	21.4%
CIMB Group Holdings Bhd	7.0%
Sun Lead International Ltd	6.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	389.8	426.8	483.0
EBITDA	32.5	44.5	51.9
PBT	24.8	36.5	41.6
Net Profit (NP)	21.8	31.1	35.5
Consensus (NP)	N.A.	25.1	20.8
Earnings Revision	N.A.	0%	0%
EPS (sen)	6.8	9.7	11.1
EPS growth (%)	-16.5	42.6	14.1
NDPS (sen)	1.7	2.4	2.8
BVPS (RM)	0.52	0.60	0.68
Price/BV (x)	4.5	3.9	3.5
PER (x)	34.6	24.3	21.3
Gearing (x)	0.3	0.3	0.3
ROA (%)	6.2	8.5	8.8
ROE (%)	13.0	16.2	16.3
Dividend Yield (%)	0.7	1.0	1.2

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	129.5	98.3	31.8%	111.2	16.4%	389.8	379.8	2.6%
GP	20.1	17.7	13.7%	22.7	-11.3%	54.2	63.6	-14.8%
EBIT	7.5	7.9	-5.2%	10.7	-30.5%	22.7	32.9	-31.1%
PBT	6.8	7.2	-5.1%	10.4	-34.5%	20.1	31.6	-36.5%
Taxation	0.8	-2.2	135.7%	-2.5	131.7%	-2.8	-7.7	62.9%
Net Profit (NP)	7.5	4.9	53.5%	8.2	-8.4%	17.1	24.4	-29.9%
Core NP	9.8	8.1	20.7%	8.5	16.2%	21.8	26.4	-17.4%
EPS (sen)	3.1	2.5	22.9%	2.7	14.3%	6.6	8.5	-23.0%
DPS (sen)	0.0	0.0		0.0		0.5	2.0	
GP margin	15.5%	18.0%		20.4%		13.9%	16.7%	
EBIT margin	5.8%	8.0%		9.6%		5.8%	8.7%	
Pretax margin	5.2%	7.3%		9.3%		5.1%	8.3%	
CNP margin	7.6%	8.3%		7.6%		5.6%	7.0%	
Effective tax rate	11.5%	-30.5%		-23.7%		-14.2%	-24.3%	

Source: Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	129.5	98.3	31.8%	111.2	16.4%	389.8	379.8	2.6%
UHP	81.8	70.1	16.7%	90.0	-9.1%	278.1	262.7	5.9%
Process Engineering	18.5	9.3	97.6%	14.7	25.6%	45.1	90.4	-50.1%
General Contracting	22.3	11.6	92.6%	2.4	827.9%	44.5	18.6	138.5%
Industrial Gasses	6.9	7.2	-4.7%	4.2	65.1%	22.1	8.0	175.3%
UHP	63%	71%		81%		71%	69%	
Process Engineering	14%	10%		13%		12%	24%	
General Contracting	17%	12%		2%		11%	5%	
Industrial Gasses	5%	7%		4%		6%	2%	

Source: Kenanga Research

Geographical Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	129.5	98.3	31.8%	111.2	16.4%	389.8	379.8	2.6%
Malaysia	48.0	31.5	52.4%	22.9	110.1%	118.2	89.3	32.3%
China	44.7	35.0	27.7%	24.1	85.4%	124.7	100.8	23.7%
Taiwan	3.7	5.4	-31.7%	1.7	114.3%	14.8	8.5	73.4%
Singapore	32.5	24.1	35.0%	59.2	-45.2%	127.4	176.2	-27.7%
Others	0.6	2.3	-72.1%	3.3	-80.6%	4.7	4.9	-4.2%
Malaysia	37%	32%		21%		30%	24%	
China	34%	36%		22%		32%	27%	
Taiwan	3%	5%		2%		4%	2%	
Singapore	25%	24%		53%		33%	46%	
Others	1%	2%		3%		1%	1%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
D&O GREEN TECHNOLOGIES BHD	4.02	4,679.3	Y	12/2019	44.3%	21.9%	102.4%	21.3%	79.9	39.5	32.5	9.6	8.3	21.0%	0.9%	4.20	OP
INARI AMERTRON BHD	3.60	11,936.3	Y	06/2020	37.4%	24.9%	80.1%	15.8%	67.6	38.1	32.9	8.9	8.5	23.3	2.5%	4.00	OP
JHM CONSOLIDATION BHD	2.32	1,293.6	Y	12/2020	44.8%	13.3%	132.9%	13.8%	60.4	25.9	22.8	5.9	4.7	18.1%	0.6%	2.35	MP
KELINGTON GROUP BHD	2.36	758.5	Y	12/2020	9.5%	13.3%	42.6%	14.1%	34.6	24.3	21.3	4.5	3.9	16.2%	1.0%	3.10	OP
KESM INDUSTRIES BHD	15.10	649.5	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	37.00	7,359.2	Y	06/2020	8.0%	8.0%	16.0%	11.0%	19.5	16.7	15.1	1.7	1.8	11.8%	1.9%	43.00	OP
P.I.E. INDUSTRIAL BHD	3.37	1,294.2	Y	12/2020	59.9%	7.5%	60.0%	15.8%	28.2	17.7	15.2	2.7	2.3	13.1%	2.7%	4.00	OP
SKP RESOURCES BHD	2.28	2,849.7	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP
UNISEM (M) BHD	8.90	7,118.2	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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